

CITY OF SAC CITY, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

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City of Sac City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Glen Duncan	Mayor	Jan 2004
Sharon Mayo	Mayor Pro Tem	Jan 2004
Sally Lines	Council Member	Jan 2004
Jerry Volkert	Council Member	Jan 2004
Jim Johnston	Council Member	Jan 2006
Gary Hansen	Council Member	Jan 2006
Gary Mahannah	City Administrator/Clerk	Jan 2003
Sandy Tellinghuisen	Treasurer	Jan 2003
Colin McCullough	Attorney	Jan 2003
Matt Wallace	Airport Commission	Jan 2003
Ken Pap	Airport Commission	Jan 2004
Mars Domino	Airport Commission	Jan 2004
Greg Miner	Airport Commission	Jan 2005
Tina Freese	Airport Commission	Jan 2008

City of Sac City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(After January 2004)		
Lonnie Rubendall	Mayor	Jan 2008
Jerry Volkert	Mayor Pro Tem	Jan 2008
Jim Johnston	Council Member	Jan 2006
Gary Hansen	Council Member	Jan 2006
Bryan Buckley	Council Member	Jan 2008
Roger Jensen	Council Member	Jan 2008
Gary Mahannah	City Administrator/Clerk	Jan 2005
Sandy Tellinghuisen	Treasurer	Jan 2005
Colin McCullough	Attorney	Jan 2005
Louis Carnine	Airport Commission	Jan 2005
Tina Freese	Airport Commission	Resigned
Earl Zimmerman	Airport Commission	Jan 2008
Matt Wallace	Airport Commission	Jan 2009
Ken Pap	Airport Commission	Jan 2009

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sac City, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sac City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sac City as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 14, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated November 19, 2004 on our consideration of the City of Sac City’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 5 through 11 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Sac City’s basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which is presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CORNWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

November 19, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sac City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparison will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 18.5% or approximately \$275,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$49,000.
- Disbursements of the City's governmental activities decreased 34.8% or approximately \$651,000, in fiscal 2004 from fiscal 2003. Public safety and public works disbursements decreased from 2003 to 2004 due to capital purchases made in 2003.
- The City's total cash basis net assets decreased 14%, or approximately \$129,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$25,000 and the assets of the business type activities decreased by approximately \$154,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and municipal gas utilities. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, gas and garbage funds, of which water and gas are determined to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>	
	<u>2004</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 100,092
Intergovernmental	240,903
General receipts:	
Property tax	840,568
Investment earnings	189
Miscellaneous	28,843
Transfers	<u>32,494</u>
Total receipts	<u>1,243,089</u>

Disbursements:	
Public safety	272,397
Public works	268,324
Culture and recreation	215,432
General government	140,701
Debt service	315,860
Capital projects	<u>5,000</u>
Total disbursements	<u>1,217,714</u>
Change in cash basis	25,375
Cash basis net assets beginning of year	<u>347,416</u>
Cash basis net assets end of year	<u>\$ 372,791</u>

The City's total receipts for governmental activities decreased by 18.5% or \$275,000. The total cost of all programs and services decreased by approximately \$651,000 or 34.8%. The significant decrease in receipts was primarily the result of donations and grants being received in 2003 to help pay for capital projects plus loss of state funds.

The City increased property tax rates for Fiscal Year 2003-2004 by an average of 11 percent. This increase raised the City's property tax receipts by approximately \$49,000 in 2004. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$8,000 next year.

The cost of all governmental activities this year was \$1.218 million compared to \$1.868 million last year.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>2004</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 397,193
Sewer	201,165
Gas	1,256,735
Garbage	170,007
Interest	5,440
Miscellaneous	<u>6,591</u>
Total receipts	<u>2,037,131</u>
Disbursements:	
Water	337,673
Sewer	201,834
Gas	1,421,169
Garbage	203,917
Transfers	<u>27,314</u>
Total disbursements	<u>2,191,907</u>

Increase (decrease) in cash basis	(154,776)
Cash basis net assets beginning of year	<u>588,635</u>
Cash basis net assets end of year	<u>\$ 433,859</u>

Total business type activities receipts for the fiscal year were \$2.037 million compared to \$2.059 million last year. The cash balance decreased by approximately \$154,000 from the prior year because of the increase in gas prices. Total disbursements for the fiscal year increased by 6.2% to a total of \$2.192 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Sac City completed the year, its governmental funds reported a combined fund balance of \$372,686, an increase of \$25,494 above last year's total of \$347,416. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$8,701 from the prior year to \$58,296.
- The Road Use Tax Fund cash balance increased by \$16,385 to \$18,963 during the fiscal year. This increase was attributable to changes made in snow removal operations.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$20,505 to \$36,947.
- The Gas Fund cash balance decreased by \$141,906 to \$344,052 due primarily to increase in gas prices.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 5, 2004 and resulted in an increase in operating disbursements related to a grant received for the Airport in the amount of approximately \$530,000.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$1,480,000 in bonds and other long-term debt, compared to approximately \$1,715,000 last year, as shown below.

Outstanding Debt at Year-End

	<u>2004</u>	<u>2003</u>
General Obligation Bonds	\$ <u>1,480,000</u>	<u>1,715,000</u>
Total	\$ 1,480,000 <u>=====</u>	1,715,000 <u>=====</u>

Debt decreased as a result of paying down the general obligation bonds.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,480,000 is significantly below its constitutional debt limit of \$3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Sac City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's employment growth has mirrored its population growth during 1999-2004, averaging per year gains of 2.2 percent. Unemployment in the City now stands at 3.1 percent, versus 3.2 percent a year ago. This compares with the State's unemployment rate of 3.4 percent and the national rate of 3.9 percent.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the agricultural markets and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$4.2 million, an increase of 16.6% over the final 2004 budget mostly due to increases in natural gas prices up slightly by .6%. The City will use these increases in receipts to pay off debt services. Budgeted disbursements are expected to rise by approximately \$700,000. Increased insurance, cost of products, and increases in gas prices represent the largest increases. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$50,000 by close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Gary Mahannah, City Administrator, 302 E. Main Street, Sac City, Iowa.

Basic Financial Statements

City of Sac City, Iowa
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2004

		Program Receipts		
		Charges for	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 272,397	8,653	26,307	-
Public works	268,324	1,108	200,025	-
Culture and recreation	215,432	66,982	14,571	-
General government	140,701	-	-	-
Debt service	315,860	-	-	-
Capital projects	5,000	23,349	-	-
Total governmental activities	<u>1,217,714</u>	<u>100,092</u>	<u>240,903</u>	<u>-</u>
Business type activities:				
Water	337,673	397,193	-	-
Gas	1,421,169	1,256,735	6,591	-
Nonmajor	405,751	371,172	-	-
Total business type activities	<u>2,164,593</u>	<u>2,025,100</u>	<u>6,591</u>	<u>-</u>
Total	<u>3,382,307</u>	<u>2,125,192</u>	<u>247,494</u>	<u>-</u>
Component unit:				
Airport	\$ <u>154,317</u>	<u>14,158</u>	<u>9,000</u>	<u>112,212</u>

General Receipts:

Property tax levied for:	
General purposes	
Debt service	
Unrestricted interest on investments	
Miscellaneous	
Transfers	
Total general receipts and transfers	
Change in cash basis net assets	
Cash basis net assets beginning of year	
Cash basis net assets end of year	

Cash Basis Net Assets

Restricted:	
Streets	
Debt service	
Other purposes	
Unrestricted	
Total cash basis net assets	

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component Unit
Governmental Activities	Business Type Activities	Total	Airport
(237,437)	-	(237,437)	-
(67,191)	-	(67,191)	-
(133,879)	-	(133,879)	-
(140,701)	-	(140,701)	-
(315,860)	-	(315,860)	-
18,349	-	18,349	-
(876,719)	-	(876,719)	-
-	59,520	59,520	-
-	(157,843)	(157,843)	-
-	(34,579)	(34,579)	-
-	(132,902)	(132,902)	-
(876,719)	(132,902)	(1,009,621)	-
-	-	-	(18,947)
573,312	-	573,312	-
267,257	-	267,257	-
189	5,440	5,629	5,916
28,842	-	28,842	13,133
32,494	(27,314)	5,180	(5,180)
902,094	(21,874)	880,220	13,869
25,375	(154,776)	(129,401)	5,078
347,416	588,635	936,051	85,503
\$ 372,791	433,859	806,650	80,425
\$ 170,478	-	170,478	-
780	-	780	-
143,132	1,103	144,235	-
58,401	432,756	491,157	80,425
\$ 372,791	433,859	806,650	80,425

City of Sac City, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2004

		Special Revenue	
		Road	Employee
	General	Use	Benefits
	Tax		
Receipts:			
Property tax	\$ 344,191	-	197,112
Other city tax	22,068	-	9,940
Licenses and permits	6,948	-	-
Use of money and property	724	-	-
Intergovernmental	50,366	197,225	-
Charges for service	69,455	-	-
Special assessments	-	-	-
Miscellaneous	11,285	-	-
Total receipts	<u>505,037</u>	<u>197,225</u>	<u>207,052</u>
Disbursements:			
Operating:			
Public safety	272,397	-	-
Public works	87,484	180,840	-
Culture and recreation	215,432	-	-
General government	140,806	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>716,119</u>	<u>180,840</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(211,082)</u>	<u>16,385</u>	<u>207,052</u>
Other financing sources (uses):			
Operating transfers in	223,186	-	-
Operating transfers out	<u>(20,805)</u>	<u>-</u>	<u>(207,052)</u>
Total other financing sources (uses)	<u>202,381</u>	<u>-</u>	<u>(207,052)</u>
Net change in cash balances	(8,701)	16,385	-
Cash balances beginning of year	<u>66,997</u>	<u>2,578</u>	<u>-</u>
Cash balances end of year	<u>\$ 58,296</u>	<u>18,963</u>	<u>-</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	-	-	-
Unreserved:			
General fund	58,296	-	-
Special revenue funds	-	18,963	-
Capital projects funds	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 58,296</u>	<u>18,963</u>	<u>-</u>

See notes to financial statements.

Exhibit B

Debt Service	Other Nonmajor Governmental Funds	Total
254,470	-	795,773
12,787	-	44,795
-	-	6,948
-	-	724
-	6,467	254,058
-	-	69,455
-	23,349	23,349
-	4,208	15,493
<u>267,257</u>	<u>34,024</u>	<u>1,210,595</u>
-	-	272,397
-	-	268,324
-	-	215,432
-	-	140,806
315,860	-	315,860
-	5,000	5,000
<u>315,860</u>	<u>5,000</u>	<u>1,217,819</u>
<u>(48,603)</u>	<u>29,024</u>	<u>(7,224)</u>
49,383	20,805	293,374
-	(33,023)	(260,880)
<u>49,383</u>	<u>(12,218)</u>	<u>32,494</u>
780	16,806	25,270
-	277,841	347,416
<u>780</u>	<u>294,647</u>	<u>372,686</u>
780	-	780
-	-	58,296
-	65,179	84,142
-	151,515	151,515
-	77,953	77,953
<u>780</u>	<u>294,647</u>	<u>372,686</u>

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 15) \$ 372,686

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

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Cash basis net assets of governmental activities (page 13) \$ 372,791

Net change in cash balances (page 15) 25,270

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

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Change in cash balance of governmental activities (page 13) \$ 25,375

See notes to financial statements.

City of Sac City, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2004

	Enterprise Funds			
	<u>Water</u>	<u>Gas</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 396,521	1,250,819	368,952	2,016,292
Miscellaneous	<u>672</u>	<u>5,916</u>	<u>2,220</u>	<u>8,808</u>
Total operating receipts	<u>397,193</u>	<u>1,256,735</u>	<u>371,172</u>	<u>2,025,100</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
General government	-	-	-	-
Business type activities	<u>337,673</u>	<u>1,421,303</u>	<u>405,751</u>	<u>2,164,727</u>
Total operating disbursements	<u>337,673</u>	<u>1,421,303</u>	<u>405,751</u>	<u>2,164,727</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>59,520</u>	<u>(164,568)</u>	<u>(34,579)</u>	<u>(139,627)</u>
Non-operating receipts:				
Interest on investments	1,200	3,170	1,070	5,440
Miscellaneous	<u>-</u>	<u>6,591</u>	<u>-</u>	<u>6,591</u>
Total non-operating receipts	<u>1,200</u>	<u>9,761</u>	<u>1,070</u>	<u>12,031</u>
Excess (deficiency) of receipts over (under) disbursements	<u>60,720</u>	<u>(154,807)</u>	<u>(33,509)</u>	<u>(127,596)</u>
Other financing sources (uses):				
Operating transfers in	-	23,267	-	23,267
Operating transfers out	<u>(40,215)</u>	<u>(10,366)</u>	<u>-</u>	<u>(50,581)</u>
Total other financing sources (uses)	<u>(40,215)</u>	<u>12,901</u>	<u>-</u>	<u>(27,314)</u>
Net change in cash balances	20,505	(141,906)	(33,509)	(154,910)
Cash balances beginning of year	<u>16,442</u>	<u>485,958</u>	<u>86,235</u>	<u>588,635</u>
Cash balances end of year	<u>\$ 36,947</u>	<u>344,052</u>	<u>52,726</u>	<u>433,725</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 36,947</u>	<u>344,052</u>	<u>52,726</u>	<u>433,725</u>
Total cash basis fund balances	<u>\$ 36,947</u>	<u>344,052</u>	<u>52,726</u>	<u>433,725</u>

See notes to financial statements.

Internal
Service Fund
Employee
Payroll

-
896,605
896,605

162,395
112,979
89,971
28,545
502,476
896,366

239

-
-
-

239

-
-
-

239
-
239

239

239

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the year ended June 30, 2004

Total enterprise funds cash balances (page 17) \$ 433,725

*Amounts reported for business type activities in the Statement of
Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

134

Cash basis net assets of business type activities (page 13) \$ 433,859

Net change in cash balances (page 17) (154,910)

*Amounts reported for business type activities in the Statement of
Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

134

Change in cash balance of business type activities (page 13) \$ (154,776)

See notes to financial statements.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Sac City is a political subdivision of the State of Iowa located in Sac County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sac City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Discretely Presented Component Unit

These financial statements present the City of Sac City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2004

The Sac City Municipal Airport Authority (Authority) was established pursuant to Chapter 330A of the Code of Iowa to operate the City's airport facility. The Authority is governed by a five member board appointed by the Sac City City Council. The board members serve at the pleasure of the City. The City annually provides significant operating subsidies to the Authority. In accordance with criteria set by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented. The Authority is accounted for as a Proprietary Fund in these financial statements.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Sac County Emergency Management Commission, Sac County Landfill Commission, Sac County Joint E911 Service Board, Recreation Center Board, and Kid's World Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2004

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated bylaw or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for receipts to pay for the City's share of payroll taxes.

City of Sac City, Iowa
Notes to Financial Statements

June 30, 2004

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the City's payroll, which is then allocated to the City's departments on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Sac City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements had not exceeded the amounts budgeted.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2004

(2) Cash

The City and its component unit's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City and its component unit are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City and its component unit had no investments at June 30, 2004. The City and its component unit invested its excess funds in savings accounts and certificates of deposit.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending <u>June 30,</u>	<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 250,000	\$ 69,540
2006	220,000	58,000
2007	230,000	48,342
2008	245,000	37,893
2009	255,000	26,400
2010	155,000	14,010
2011	60,000	6,190
2012	<u>65,000</u>	<u>3,250</u>
Total	<u>\$ 1,480,000</u>	<u>\$ 263,625</u>

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2004

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$53,855, \$51,442 and \$48,000, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. Sick leave or personal leave is not payable upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 44,400
	=====

This liability has been computed based on rates of pay in effect at June 30, 2004.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2004

(6) Oakland Cemetery Contract

The City had contracted for the maintenance of the Oakland Cemetery for a two-year period, which terminated November 30, 2004. The total to be paid under this contract is \$41,982, \$20,991 which was paid in the current period.

The amount remaining to be paid in connection with this contract at June 30, 2004 is \$14,694 and is due as follows:

August 15, 2004	\$ 6,297
December 15, 2004	6,297
January 15, 2005	<u>2,100</u>
Total	\$ 14,694 =====

City of Sac City, Iowa
Notes to Financial Statements
June 30, 2004

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 207,052
	Long-term Capital Improvement	
	Fire Department	3,688
	Enterprise:	
	Gas	1,000
	Component Unit:	
	Airport	<u>11,446</u>
		<u>223,186</u>
Debt Service	Special Revenue:	
	Long-term Capital Improvement	
	Fire Department	6,068
	Enterprise:	
	Water	40,215
	Gas	<u>3,100</u>
		<u>49,383</u>
Special Revenue:	General	
Long-term Capital Improvement	Fire Department	<u>20,805</u>
Enterprise:	Special Revenue:	
Gas	Revolving Loan	<u>23,267</u>
Component Unit:	Enterprise:	
Airport	Gas	<u>6,266</u>
Total		<u>\$ 322,907</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2004

(8) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$7,136, during the year ended June 30, 2004.

(9) Risk Management

The City of Sac City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professionals liability, property, boiler/machinery, and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2004

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$78,999.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000 such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a liability claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2004

The City also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Revolving Loan Fund

The City has funds available for businesses who wish to create additional jobs within the City. The business must exhaust all other means of raising capital, there must be a public purpose that benefits the City and the business must have collateral for the loan. A committee appointed by the City reviews the application and negotiates the interest rate and payment terms. At June 30, 2004 there was one outstanding loan owed to the City in the amount of \$14,035.

(11) Sac County Landfill Commission

The City, in conjunction with nine other municipalities, has created the Sac County Landfill Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the Commission, the net assets of the Commission will be prorated among the municipalities. The Sac County Landfill Commission board consists of an elected representative of the governing body of each participating governmental jurisdiction. The Commission may not be accumulating sufficient financial resources,

therefore, the City of Sac City has an ongoing financial responsibility. During the year ended June 30, 2004 the City paid \$59,477 to the Sac County Landfill Commission for landfill fees. Complete financial statements for the Commission can be obtained from the Sac County Landfill Commission. In fiscal year 1997-1998 a 28E organization was formed by nine participating municipalities in order to provide financial assurance mechanisms in the event of closure and postclosure costs associated with the landfill. No estimate of the closure or postclosure costs have been made to date.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2004

(12) Early Childhood Development Project

A management agreement is in effect where Kid's World will repay the City the amount it advanced plus interest. A provision in the agreement states that payments may be suspended if there are not sufficient monies to repay the City. However, interest continues to accrue on the unpaid balance. During the fiscal year ended June 30, 2004, the council voted to suspend all payments. The balance owing to the City at June 30, 2004, including interest, is \$274,496.

(13) Construction Commitment

The City has committed to an airport construction project for approximately \$1,120,000. This project will be financed with \$1,053,000 from a federal grant and \$67,000 city funds. The City has also committed to a Water Main Improvement Project of \$97,000 to be paid from internal financing.

(14) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements

- and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Required Supplemental Information

City of Sac City, Iowa

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to to Budgeted
Receipts:			
Property tax	\$ 795,773	-	-
Other city tax	44,795	-	-
Licenses and permits	6,948	-	-
Use of money and property	724	5,440	-
Intergovernmental	254,058	-	-
Charges for service	69,455	2,016,292	-
Special assessments	23,349	-	-
Miscellaneous	15,493	912,004	896,605
Total receipts	<u>1,210,595</u>	<u>2,933,736</u>	<u>896,605</u>
Disbursements:			
Public safety	272,397	162,395	162,395
Public works	268,324	112,979	112,979
Culture and recreation	215,432	89,971	89,971
Community and economic development	-	-	-
General government	140,806	28,545	28,545
Debt service	315,860	-	-
Capital projects	5,000	-	-
Business type activities	-	2,667,203	502,476
Total disbursements	<u>1,217,819</u>	<u>3,061,093</u>	<u>896,366</u>
Excess (deficiency) of receipts over (under) disbursements	(7,224)	(127,357)	239
Other financing sources, net	<u>32,494</u>	<u>(27,314)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	25,270	(154,671)	239
Balances beginning of year	<u>347,416</u>	<u>588,635</u>	<u>-</u>
Balances end of year	<u>\$ 372,686</u>	<u>433,964</u>	<u>239</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
795,773	800,545	800,545	(4,772)
44,795	40,206	40,206	4,589
6,948	2,650	2,650	4,298
6,164	17,125	17,125	(10,961)
254,058	536,448	731,448	(477,390)
2,085,747	1,995,220	2,265,220	(179,473)
23,349	-	-	23,349
30,892	123,636	130,297	(99,405)
<u>3,247,726</u>	<u>3,515,830</u>	<u>3,987,491</u>	<u>(739,765)</u>
272,397	284,825	289,435	17,038
268,324	310,723	310,723	42,399
215,432	215,879	225,879	10,447
-	2,150	4,300	4,300
140,806	139,765	153,765	12,959
315,860	316,360	316,360	500
5,000	341,128	541,128	536,128
2,164,727	1,958,132	2,257,132	92,405
<u>3,382,546</u>	<u>3,568,962</u>	<u>4,098,722</u>	<u>716,176</u>
(134,820)	(53,132)	(111,231)	(23,589)
<u>5,180</u>	<u>-</u>	<u>-</u>	<u>5,180</u>
(129,640)	(53,132)	(111,231)	(18,409)
<u>936,051</u>	<u>1,318,666</u>	<u>941,323</u>	<u>(5,272)</u>
<u>806,411</u>	<u>1,265,534</u>	<u>830,092</u>	<u>(23,681)</u>

City of Sac City, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$529,760. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

City of Sac City, Iowa

Statements of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	<u>Special Revenue</u>		
	Long-term Capital Improvements		
	<u>Unemployment Compensation</u>	<u>Fire Department</u>	<u>Revolving Loan</u>
Receipts:			
Intergovernmental	\$ -	6,467	-
Special assessments	-	-	-
Miscellaneous	-	-	3,038
Total receipts	-	6,467	3,038
Disbursements:			
Capital projects	-	-	-
Total disbursements	-	-	-
Excess (deficiency) of receipts over (under) disbursements	-	6,467	3,038
Other financing sources (uses):			
Operating transfers in	-	20,805	-
Operating transfers out	-	(9,756)	(23,267)
Total other financing sources (uses)	-	11,049	(23,267)
Net change in cash balances	-	17,516	(20,229)
Cash balances beginning of year	9,042	38,621	20,229
Cash balances end of year	<u>\$ 9,042</u>	<u>56,137</u>	<u>-</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 9,042	56,137	-
Capital project funds	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 9,042</u>	<u>56,137</u>	<u>-</u>

See accompanying independent auditor's report.

Schedule 1

<u>Capital Projects</u>		<u>Permanent</u>	
<u>Special Assessment</u>	<u>Kids World</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>
-	-	-	6,467
23,349	-	-	23,349
-	-	1,170	4,208
<u>23,349</u>	<u>-</u>	<u>1,170</u>	<u>34,024</u>
-	5,000	-	5,000
-	5,000	-	5,000
<u>23,349</u>	<u>(5,000)</u>	<u>1,170</u>	<u>29,024</u>
-	-	-	20,805
-	-	-	(33,023)
-	-	-	(12,218)
23,349	(5,000)	1,170	16,806
<u>128,166</u>	<u>5,000</u>	<u>76,783</u>	<u>277,841</u>
<u>151,515</u>	<u>-</u>	<u>77,953</u>	<u>294,647</u>
-	-	-	65,179
151,515	-	-	151,515
-	-	77,953	77,953
<u>151,515</u>	<u>-</u>	<u>77,953</u>	<u>294,647</u>

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds		
	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 199,765	169,187	368,952
Miscellaneous	<u>1,400</u>	<u>820</u>	<u>2,220</u>
Total operating receipts	<u>201,165</u>	<u>170,007</u>	<u>371,172</u>
Operating disbursements:			
Business type activities	<u>201,834</u>	<u>203,917</u>	<u>405,751</u>
Total operating disbursements	<u>201,834</u>	<u>203,917</u>	<u>405,751</u>
Deficiency of operating receipts under operating disbursements	<u>(669)</u>	<u>(33,910)</u>	<u>(34,579)</u>
Non-operating receipts:			
Interest on investments	<u>603</u>	<u>467</u>	<u>1,070</u>
Total non-operating receipts	<u>603</u>	<u>467</u>	<u>1,070</u>
Net change in cash balances	(66)	(33,443)	(33,509)
Cash balances beginning of year	<u>5,313</u>	<u>80,922</u>	<u>86,235</u>
Cash balances end of year	<u>\$ 5,247</u>	<u>47,479</u>	<u>52,726</u>
Cash Basis Fund Balances			
Unreserved	<u>5,247</u>	<u>47,479</u>	<u>52,726</u>
Total cash basis fund balances	<u>\$ 5,247</u>	<u>47,479</u>	<u>52,726</u>

See accompanying independent auditor's report.

City of Sac City, Iowa

Schedule of Indebtedness

Year ended June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Water note	Feb 1, 1995	5.75-6.80%	\$ 300,000
Swimming pool	May 1, 2000	4.65-5.20%	750,000
Corporate purpose	April 2, 2002	3.00-5.00%	1,195,000
Total			

See accompanying independent auditor's report.

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
75,000	-	35,000	40,000	5,065	-
565,000	-	70,000	495,000	28,405	-
<u>1,075,000</u>	<u>-</u>	<u>130,000</u>	<u>945,000</u>	<u>46,490</u>	<u>-</u>
<u>\$ 1,715,000</u>	<u>-</u>	<u>235,000</u>	<u>1,480,000</u>	<u>79,960</u>	<u>-</u>

City of Sac City, Iowa

Note Maturities

June 30, 2004

Year Ending <u>June 30,</u>	General Obligation Notes			
	Corporate Purpose		Water Note	
	Issued April 2, 2002		Issued Mar 1, 1995	
	Interest <u>Rates</u>	<u>Amount</u>	Interest <u>Rates</u>	<u>Amount</u>
2005	3.85 %	\$ 140,000	6.80 %	\$ 40,000
2006	4.10	145,000		-
2007	4.30	150,000		-
2008	4.50	160,000		-
2009	4.70	165,000		-
2010	4.80	60,000		-
2011	4.90	60,000		-
2012	5.00	65,000		-
Total		<u>\$ 945,000</u>		<u>\$ 40,000</u>

See accompanying independent auditor's report.

Schedule 4

Swimming Pool				
Issued May 1, 2001				
Interest				
	<u>Rates</u>		<u>Amount</u>	<u>Total</u>
	4.90 %	\$	70,000	\$ 250,000
	4.95		75,000	220,000
	5.00		80,000	230,000
	5.05		85,000	245,000
	5.15		90,000	255,000
	5.20		95,000	155,000
			-	60,000
			-	65,000
			<u>\$ 495,000</u>	<u>\$ 1,480,000</u>

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 795,773	761,249
Other city tax	44,795	36,637
Licenses and permits	6,948	6,609
Use of money and property	724	312
Intergovernmental	254,058	366,492
Charges for service	69,455	58,460
Special assessments	23,349	95,880
Miscellaneous	<u>15,493</u>	<u>160,142</u>
Total	<u>\$ 1,210,595</u>	<u>1,485,781</u>
Disbursements:		
Operating		
Public safety	\$ 272,397	417,621
Public works	268,324	579,938
Health and social services	-	4,066
Culture and recreation	215,432	215,440
General government	140,806	141,353
Debt service	315,860	318,238
Capital projects	<u>5,000</u>	<u>192,235</u>
Total	<u>\$ 1,217,819</u>	<u>1,868,891</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Sac City, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated November 19, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Sac City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Sac City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our

opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Sac City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for items I-A-04 and I-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sac City and other parties to whom the City of Sac City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sac City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CORNWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

November 19, 2004

City of Sac City, Iowa

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noticed that certain functions are not entirely segregated, such as preparing receipts and posting utility billing.

Recommendation - We realize that with four office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We feel we are doing the best we can and that no further segregation is possible without additional staff.

Conclusion - Response acknowledged.

I-B-04 Airport Monthly Financial Statements – When reviewing the airport’s records it was noted that monthly statements were not prepared.

Recommendation – For better accountability, the Airport Commission should have monthly statements prepared, especially with the addition of the apron construction project.

Response – We will do this in the future.

Conclusion – City officials should monitor this as it was not done for the previous two years.

City of Sac City, Iowa

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

- II-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- II-C-04 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mars Domino, Airport Commissioner, Co-Owner of Domino Chevrolet	Vehicles, repairs and maintenance	\$ 752
Jerry Youll, Planning and Zoning Board Owner of Jerry's Plumbing & Heating	Repairs and furnace	4,822
Keith Wilhelm, Board of Adjustment, Owner of Small Engine City	Repairs and maintenance	1,470
Sally Lines, Council Member, Owner of Noble Popcorn	Supplies	92

City of Sac City, Iowa

Schedule of Findings

Year ended June 30, 2004

The transaction with Jerry Youll does not appear to represent a conflict of interest since competitive bids were taken. The remaining transactions do not appear to represent conflicts of interest since the total transactions was less than \$2,500 during the fiscal year with each individual.

- II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.
- II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.